Target Company: Uber – Profitability

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What's the output operating or financial metric that's most important to move?

- The output metric that is most important to move is **Adjusted EBITDA.**

  Reasoning: Adjusted EBITDA is a crucial metric to track as it reflects a company's operational performance, ability to generate cash flow and ability to manage its debt, what are essential for a company's financial health and growth prospects.

What's the input metric most powerful to move output metric?

- The two input metrics that have the greatest impact on Adjusted EBITDA are:
  1. **Revenue**: **Gross Bookings**
  2. **Operating Expenses**: **Revenue Cost, Marketing,** Research and development (R & D), Administrative Expense

The best 2-3 ideas of initiatives to move that input metric:

- **Increase Gross Bookings**:
  - ◊ **Recovery of mobility**: expect the growth rate to recover back to pre-pandemic levels

    Rough math example

    Gross bookings for Uber's mobility service in Q4 2019 was $13.5 B, an 18% increase compared to 2018. It is projected to be $14.9 B in Q4 2022 based on the anticipated **recovery of growth**, which is **118% * 14.9B = 17.5B for mobility in Q4 2023**. There are high hopes that revenue will recover to pre-pandemic levels.

  - ◊ **Increase the market share** in the most revenue-generating **regions**:

    In Q4 2022, Europe, Middle East, and Africa (EMEA) generated 2.1B in revenue, representing a 110% increase from Q4 2021. The question now is whether we can replicate this success in Asia Pacific (APAC) region, which is the next potential region for Uber to expand its market share.

    Rough math example

    Uber's EMEA operations generated $2.1B in Q4 2022, a 110% YoY increase. The company allocated $50M for a targeted marketing campaign in APAC, acquiring 500K new riders and 50K new drivers in 3 months. Assuming an average fare of $10 and a 10km ride distance, this generated $55M in revenue, with a net gain of $5M after

campaign costs. These new riders and drivers are expected to generate an additional $100M in revenue over the next year, demonstrating the potential of targeted marketing campaigns for expansion.

- ## Reduce Operating Costs and Expenses

1. **Invest in new technology**: **AI** - To optimize driver and rider matching, routing, dispatching, and to reduce the time and distance of trips

   Rough math example

   Assumptions:
   A city has 10,000 drivers and 100,000 riders per day.
   Each ride covers an average distance of 10km and has a fare of $15.

   Potential cost savings:
   AI-based driver and rider matching reduces idle time and empty miles driven by 20%
   Idle time reduction: save $40,000 per day and Empty miles' reduction: $100,000 per day
   Total savings: $140,000 per day

   AI-powered route planning and dispatching reduces trip distance by 10%
   Trip distance reduction: $50,000 per day
   Total savings: $50,000 per day

   Overall, AI can save Uber approximately $190,000 per day in operating costs, or $69.35 million per year. These cost savings can be reinvested into the business or passed on to riders and drivers in the form of lower prices or increased earnings.

2. **Reducing driver and rider acquisition costs**

   Uber could use targeted marketing, incentives, and pricing strategies to reduce driver and rider acquisition costs and increase market share, resulting in increased revenue and profitability.

   Rough math example

   Uber could target young urban professionals and uses targeted social media advertising. It could offer sign-up bonuses and referral rewards for drivers, such as a $500 sign-up bonus and $100 referral bonus. Uber can also use promotional pricing during peak commuting hours, like a flat rate of $10 for rides between 7am and 9am on weekdays. By using these strategies, Uber can reduce acquisition costs and increase market share, resulting in increased revenue and profitability.

- ## Concerns regarding the Net Cash flow for Q4 2022

"Net cash used in operating activities and free cash flow for Q4 2022 includes an approximately $733 million (GBP 613 million) cash outflow related to the settlement of

outstanding HMRC VAT claims for periods prior to our UK business model change on March 14, 2022." (Uber Investor 2022)

The one-time settlement mentioned above contributed to the cash flow in 2022. Since it will not be applicable in 2023, it has to be excluded from the 2023 planning.

What is the effect size to Adjusted EBITDA with the contribution of the best 2-3 ideas?

Based on the calculation in the model in attached excel, it is estimated that Uber's Adjusted EBITDA will experience a significant growth rate of **114%** by the end of Q4 2023, compared to Q4 2022, resulting in a total of **1423M**. The implementation of **new AI technology** is anticipated to be the most substantial contributor among the four ideas, accounting for approximately **87%** of the projected revenue increase of 665M * 214% = **1423M** in 2023.

Model:

(in millions)	2022	2023 Growth Rate	Notes
Increase in revenue:			black=given
Increase market share for APAC		5%	blue = calculation
Gross Bookings - Mobility Bookings recovered from pre-pandemic	30,749	9%	orange=assumptions
Decrease in operating expenses:			
Reduce Cost with new technology - AI to optimize idle and empty times		87%	**This is unusually high, so it is a good idea to dig further into it.**
decrease driver and rider acuisition costs		16%	
UK VAT won't be considered, so remove it for 2023	(733)	-2%	
Adjusted EBITDA	665	114%	

The **recovery of mobility** contributed to a **9%** increase in Adjusted EBITDA.
An increase in market share contributed to a **6%** increase in Adjusted EBITDA.
Investment in new technology contributed to a **1%** increase in Adjusted EBITDA.
A decrease in driver and rider acquisition costs contributed to a **16%** increase in Adjusted EBITDA.

Calculation Models:
Please refer to the attached excel models for calculation details.

Models-Christy Chen.xlsx